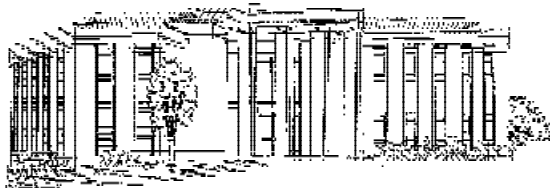


KTRS NEWSLETTER

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY

RETIRED MEMBER EDITION
June/July 2003



Members Elect Two Trustees to KTRS Board

The election for two positions on the KTRS Board of Trustees was conducted during May 2003. Mr. Gene Wilhoit, Chief State School Officer, has certified the results of the election to the KTRS Board of Trustees.



Former Governor **Julian M. Carroll** of Frankfort in Franklin County was elected to a four-year term as a lay trustee member of the Board. Kentucky's former Governor brings a

variety of experience, both in the public and private sector, into his service on the Board of Trustees. Governor Carroll's term of office will be from July 1, 2003, through June 30, 2007.



Ms. Ruth Ann Sweazy of Taylorsville in Spencer County was elected to a four-year term as an active teacher member of the Board. Ms. Sweazy is a teacher in the Spencer County School System. She is an active member of many education groups at the local, state, and national levels. Ms. Sweazy's term of office will be from July 1, 2003, through June 30, 2007.

Barbara G. Sterrett, Vice Chairperson of KTRS Board, Retires



Ms. Barbara G. Sterrett of Lexington retired from the Board of Trustees effective July 1, 2003. Ms. Sterrett began her service on the Board in 1990 and had the longest tenure of any current active teacher

trustee on the Board upon her retirement. Besides serving as Vice Chairperson of the Board, she has served as Chairperson of the Legislative Committee in addition to serving on the Personnel Committee, the Administrative Appeals Committee and the Scholarship Committee.

Venture Capital - Not a KTRS Investment at this Time

Despite a media report to the contrary, the KTRS Board of Trustees **did not** recently approve a venture capital investment. The System does not own nor is likely to own in the near future any venture investments. With the disastrous returns earned by venture capital in recent years, some other institutional investors, no doubt, regret owning venture investments.

On several occasions, the System has examined the feasibility of alternative asset classes like venture capital for its investment portfolio. Venture capital represents the investment of resources in start-up companies. Individuals interested in spurring economic development typically encourage venture capital investing.

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Ms. Sterrett's leadership will be missed by both the System's Board and staff. During Ms. Sterrett's tenure on the Board, the assets of the System grew from \$3.7 billion to \$12.1 billion, and the annual retiree payroll has increased from \$200 million to more than \$810 million. Also, many member benefit improvements took place during her tenure with two benefits standing out as having significant long-term importance to career educators. First is the benefit improvement commonly referred to as "High 3", which is the determination of the final average salary for those who retire on or after age 55 with 27 or more years of service by using the average of the member's three highest annual salaries as opposed to five highest. Second is another important benefit recently added for members retiring after June 30, 2004, that will increase the multiplier from 2.5% to 3.0% for each year of service beyond 30 years. These two important benefit improvements give members the opportunity to greatly improve their permanent benefits beyond the minimum benefit earned at 27 years of service and to better prepare themselves for the many years they will be retired.

Ms. Sterrett was a most dedicated member of the Board of Trustees and worked to protect the System as well as provide benefits for the active and retired members. We wish the Sterretts many happy and productive years.

VENTURE CAPITAL - NOT A KTRS INVESTMENT AT THIS TIME *continued . . .*

Venture capital returns can be highly volatile accompanied by large movements in values. The venture capital asset class currently is exhibiting general weakness. The asset class should continue to earn lackluster returns in upcoming quarters. Newly formed small companies have a particularly difficult time operating in a weak economy.

The venture capital asset class nationwide is currently overfunded with too few solid opportunities. Many of the illiquid investments cannot be sold without investors assuming significant losses. Sell prices can be expected to be lower than already depreciated appraisal levels.

The System plans to remain informed about the venture capital asset class. Eventually, the economy should be conducive to venture investing. Any entry by the System into this area would follow a thorough evaluation and be on a small scale with extraordinary caution. While the

System is interested in investments that enhance economic development in Kentucky, venture investments would not be assumed unless they would provide a long-term benefit to the Retirement System's active and retired members.

Cost of Living Adjustment (COLA)

Effective July 1, 2003, retirees, who were retired at least one year, receive a three percent (3.0%) increase. Members who have been retired for less than one year will receive a pro rata COLA increase in proportion to the number of months they have been retired. One and one-half percent (1.5%) of this increase was approved during the 2002 General Assembly. The remaining one and one-half percent (1.5%) represents the regular increase guaranteed each year by statute.

Minimum Value of a Year of Service

The minimum value of a year of service increased from \$400 to \$440 effective July 1, 2003. This simply means that a retiree with 27 years of service is entitled to a minimum annual annuity of \$11,800.00 ($\$440 \times 27 = \$11,800$) less any discount factors that may apply. This provides financial relief for older retirees who worked for a number of years at lower salaries.

Changes in Income Tax Withholding

New tax withholding tables, prescribed by the Department of Treasury, are a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003. The implementation of the new tax withholding tables may reduce the amount of income tax withheld from your monthly annuity payments, beginning with the July 2003 payment. Retirees, especially those who received a COLA (also a July 2003 event), are encouraged to review their withholding to determine whether an adequate amount is withheld for federal taxes. Members desiring to adjust their withholding should file a revised Form **W4P, Employee's Withholding Allowance Certificate**, with KTRS. This form is available on the KTRS web site (www.ktrs.ky.gov) or members may request a form by calling 1-800-618-1687.

Retirement Leaves Vacancy on Board of Trustees

Due to the retirement of Ms. Barbara Sterrett of Lexington, there is a vacant position on the Board of Trustees. Ms. Sterrett's unexpired term runs through June 30, 2006. KRS 161.270 provides that the Board of Trustees shall elect a person to serve on the Board for the duration of the unexpired term. Ms. Sterrett has served as an active teacher member of the Board. Any active or retired member who desires to submit the name of an active teacher member of the System as a potential candidate to fill the vacancy should forward a resume of the individual to:



**KENTUCKY TEACHERS'
RETIREMENT SYSTEM**
ATTN: Nominating Committee
of the Board of Trustees to Fill Unexpired Terms
479 Versailles Road
Frankfort, Kentucky 40601-3800

In order to provide the Nominating Committee of the Board of Trustees sufficient time to consider all interested persons, resumes are to be received in the KTRS office no later than the close of business on August 18, 2003.

Important Information for Retirees Returning to Work

Retiree Membership Application is Necessary

**Retirees who
return to work
in 2002-03
and beyond
now
contribute to
KTRS**

Retirees who return to work in 2002-03 and beyond now contribute to KTRS and are eligible to accumulate a second benefit. Those who don't earn enough service credit to accumulate a second benefit will be eligible to receive a refund of their contributions allocated to their retirement account. **To protect your benefits and establish this second account, you and your employer must complete KTRS form F1-RET - Retiree Application for Membership.** A copy of this form is available on the KTRS web site—www.ktrs.ky.gov, under **Resources, Member**.

Retirees Who Return to Work in 2002-03 will Receive an Annual Statement

In September, you should be receiving an Annual Statement from KTRS for the fiscal year ended June 30, 2003. Since you have returned to work in a KTRS position, you have now established a second account with KTRS. After accumulating a minimum of



**2003 Annual
Statement**

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five years of service credit, you may be eligible for a second retirement annuity.

The accuracy of the information contained in this statement is important to your retirement and will serve as a basis for determining future retirement benefits. Since your employer furnished the salary and service credit information reflected on the statement, any errors noted on the statement should be brought to their attention. The employer will then contact KTRS to correct errors and omissions. It is very important that you review your statement to assure its accuracy.

2003-04 Daily Wage Thresholds (DWT)

Retirees planning to return to non-university employment in a KTRS-covered position during the 2003-04 year under the new Part-Time or Full-Time program and who have not received their 2003-04 DWT, should contact KTRS. The System will calculate the 2003-04 DWT and mail it to the member.

Refund of a Retiree Second Account Contributions

Refund applications for second account contributions will be available 90 days after the 2002-03 Annual Reports are posted. Requests for the application should be made in October 2003. Retirees and employers must certify on the refund application that there will be no employment during the 2003-04 year.

Medicare Prescription Drug Bill - Medical Benefits for Retirees Age 65 & Over

Medicare Prescription Drug Bills that include provisions to support retiree medical benefits by lowering the cost of prescription drugs passed both houses of Congress recently. The House and the Senate passed two different versions of the same bill, and now the bills have been sent to a conference committee where the differences must be resolved before a final Medicare drug bill can be sent to the President for his signature.

Both bills include an effective date of 2006 for any medical benefit changes. In the intervening three years, Congress will have two sessions to further refine any medical benefit changes that occur this year. KTRS is closely monitoring the progress of Federal Medicare legislation through its staff and its Pharmacy Benefits Manager (PBM) – Medco Health Solutions. The System's Board and staff are hopeful that legislation favorable to members will be enacted, but it is too early to anticipate future benefit changes at this juncture.

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